



State of Arizona

Arizona State Procurement Office (SPO) Source to Pay (S2P) Project Initial Feasibility SPO S2P Independent Assessment and Oversight Report

Period Ending January 31, 2017, Q3 FY2017

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VERSION HISTORY

Version	Date	Comments
AZ_SPO_SP2_1st_IV&V_Report_DRAFT_v1_0 20170109	01/09/2017	Final draft to State
AZ_SPO_SP2_1st_IV&V_Report_DRAFT_v1_1 20170124	01/24/2017	Updated draft after incorporating State feedback
AZ_SPO_SP2_1st_IV&V_Report_DRAFT_v2_0 20170217	02/17/2017	Updated draft with extended assessment period
AZ_SPO_SP2_1st_IV&V_Report_FINAL_v3_0 20170306	03/06/2017	Final version to reflect initial feasibility report

1. EXECUTIVE SUMMARY

The purpose of this report is to provide an independent assessment and initial feasibility determination of the Arizona State Procurement Office (SPO) Source to Pay (S2P) project. This report is in accordance with the requirements of the Arizona Joint Legislative Budget Committee (JLBC) per Arizona House Bill 2703. PCG conducted this assessment as part of the independent verification and validation (IV&V) discipline and utilized IEEE standard 1012-2012 Standard for System and Software Verification and Validation.

In 2009, the State updated and enhanced its procurement capabilities with the deployment of an electronic portal allowing public and vendor access to bid and contract information. This system initially supported approximately 20 agencies, and has continued to add agencies to promote a centralized procurement solution with a broad range of procurement functionality.

The current SPO ProcureAZ procurement solution contract will expire in April 2017. The State is pursuing a revitalization of this current procurement solution through a competitive Request for Proposal. The objective of the S2P Project is to reduce business risk as well as secure new or additional functionality through the acquisition and implementation of a commercial-off-the-shelf (COTS) S2P solution, resulting in the continuation of end-to-end automation of the sourcing, purchasing and payment functions.

The S2P project is still in the procurement phase and has not yet selected a vendor for the S2P solution. The project intends to conduct two phases. Phase One is Procurement and focuses on finding the appropriate S2P vendor, and Phase Two is Implementation of the selected vendor's solution. Therefore, PCG focused this assessment period on the Procurement phase and concentrated on artifacts and processes related to vendor procurement. This included looking at the following key areas:

- Procurement
- Budget
- Schedule
- Requirements
- Quality

Additional assessment areas, such as design, testing, and integration, will be added in future quarterly reports based on the project's progress in the software development life cycle (SDLC). This document provides initial findings and assesses the status of the S2P Project for the reporting period November 2016 through January 2017.

1.1. Project Strengths

This Initial Feasibility Report revealed a dedicated project team that is committed to the SP2 project success, which should help resources remain on task and not get distracted by other duties. The project has already been through one iteration of the Request for Proposal (RFP) process in which it was determined in September 2016 that the solutions offered were not contemporary solutions. This resulted in a redesigned approach and corresponding RFP to facilitate a successful procurement. Strengths demonstrated in this first reporting period include:

- Detailed project planning for procurement and planning activities.
- Transparency and response timeliness for IV&V requests.
- Sound fiscal status.
- SPO and Arizona Department of Administration (ADOA) Executive Sponsorship.
- Strong technical expertise in procurement and enterprise resource planning (ERP) areas.
- Use of lessons learned from the initial RFP iteration to improve the RFP process.

1.2. Project Update and Risks

This report provides initial findings and associated risks, which are summarized below. Supporting details are provided in Section 3.

The PCG and SPO project team have reviewed each of the following concerns. The SPO team is taking the necessary steps to address each concern and mitigate project risk.

Procurement – The project is in the early phases and vendor selection is ongoing. State procurement standards around procurement exist and should continue to be followed. The project has been responsive to vendor questions and has kept the details of RFP response evaluations private to maintain integrity for the RFP process.

Budget – The project is managing to the project budget of \$310,000 for Phase One activities. PCG understands that a total of \$15M is budgeted for the overall project including Design, Development and Implementation (DDI) associated with Phase Two Implementation and will analyze this budget once Phase Two begins. The budget looks to be adequate to cover necessary project costs. The Enterprise Project Management Office (EPMO) for the SP2 project is closely monitoring project financials and meeting regularly to discuss the budget status.

Schedule – The project has requested a schedule in the SP2 RFP of one (1) year to onboard a vendor, implement a new S2P solution and go-live into production. The project will need to work closely with their selected vendor to ensure project activities remain on track.

Requirements – Many of the requirements described in the RFP are not written as explicit requirements, and instead are open-ended questions to vendors. Although this was done by design based on previous lessons learned, this could lead to lack of agreement between SPO and their selected vendor on what the vendor will be providing, and may impede traceability throughout the project unless these concerns are clearly addressed and documented in negotiations and final contract.

Quality – Project deliverables are well-structured and clearly convey content. The project should work to maintain consistency and overall document quality.

1.3. Recommendations

High-level recommendations identified in this assessment period are included in this section. The recommendations are tactical in nature and if exercised will improve efficiencies, accountability and auditability within the project. Each of the following recommendations have been reviewed with the SPO S2P team and are under consideration. Included in the summary below are specific actions being taken on the recommendations:

- Maintain adherence to established quality assurance (QA) processes to enforce deliverable quality and consistency. This should include a QA review before any document is released, and should be applied to the eventual selected vendor's deliverables as well. SPO has started conducting additional reviews for project management deliverables.
- Review project schedule and remain flexible on overall project timeline. There are a number of areas that can be considered for adjustment, such as modifying project scope to meet the selected one-year timeline or maintaining scope but extending the project schedule.
- SPO should work closely with the selected vendor to ensure that the final contract clarifies what requirements will be met and what will be delivered.

2. STATUS OF THE PROJECT

Since this report addresses the initial feasibility of the SP2 project that is just beginning, there is no status change for the implementation phase of the S2P solution. Future assessment reports will use this section

to indicate progress of the selected vendor against their baseline project plan. In lieu of such updates, this section reports on Phase I SPO procurement progress.

2.1. Scope Management

The SP2 project originally released an RFP in June 2016. SPO constructed the RFP in consultation with key stakeholders of Arizona state agencies to ensure the appropriate business needs were met. After careful consideration, SPO cancelled the RFP and conducted a review of the requirements and approach. SPO re-issued the vendor RFP for an S2P solution in October 2016 and plans to award the contract to a vendor by March 2017.

2.2. Project Expenditure Status

The project is operating within the projected budget and expects to come in just under budget for Phase One. The following table shows actual and budgeted project costs to date, the budget plan for FY2017 and the overall project budget.

Table 1: Revised Expenditures Based on Updated Cash Flow Estimates

	Project Budget	FY2017 Expended	FY2017 Budget	FY2017 Remaining Expected	Total Projected Expenditures
Systems Integrator Costs	\$0	\$0	\$0	\$0	\$0
Other Contractor Costs	\$310,000	\$141,612	\$310,000	\$115,200	\$256,812
SPO Costs	\$0	\$30,543	\$0	\$20,000	\$50,543
Contingency	\$0	\$0	\$0	\$0	\$0
Total	\$310,000	\$172,155	\$310,000	\$135,000	\$307,355

2.3. Project Feasibility Status

This section summarizes the status and health of the SPO S2P Project. Findings and recommendations are provided in Section 3 of this report.

2.3.1. Project Team

SPO has assigned a dedicated project management team to manage the SP2 project as well as supporting procurement subject matter experts from within SPO and subject matter experts from ADOA. This team provided timely responses to the IV&V team and displayed an optimistic approach to the project which bodes well for future team interactions. During this reporting period, IV&V noted the following collaboration and communication within and across teams:

- Strong leadership from both SPO and ADOA.
- Appropriate allocation of subject matter experts in the areas of project management and ERP software.
- Effective application of lessons learned from the initial RFP iteration. These lessons focused on the following areas:

- Requirements – Strong emphasis on direct feedback from state agencies to ensure their needs are met.
- Approach – SPO utilized a more open and investigative approach with the RFP to allow vendors to present best-of-breed solutions.

2.3.2. Project Schedule

The SP2 project is split into two (2) phases, covering vendor procurement activities in the first (Phase One) and vendor implementation activities in the second (Phase Two). For this reporting period, only Phase One was active. The table below shows the previously baselined project dates and the current update based on the January 31, 2017 project schedule.

Table 2: Critical Activities and Updated Timeline

Activity	Baseline – 12/13/2016	Current baseline – 01/31/2017
Phase One		
RFP development activities started	9/13/16	9/13/16
Project planning completed	9/21/16	9/21/16
RFP released	10/19/16	10/19/16
RFP vendor responses due	12/15/16	12/15/16
RFP evaluation and award	2/3/2017	3/31/17
Phase Two		
Go-live/Rollout	4/27/18	One year from vendor selection (TBD)

IV&V observed that the schedule was adjusted for the vendor evaluation period, which has shifted the project approximately two months from what was previously planned for.

The IV&V team evaluated the proposed project plan and it is unclear at this point if enough information is known to realistically set a targeted go-live date. IV&V recommends that SPO work with the selected vendor to understand an attainable schedule and adjust accordingly to ensure appropriate time is allocated for key project activities such as testing, training and organizational change management.

2.4. Project Technology Status

The technology to be used on the SP2 project is unknown at this point in time as SPO is evaluating vendor responses. From a hosting perspective, SPO has requested either of two options from prospective vendors:

1. A Software as a Service (SaaS) solution, wherein SPO pays a monthly licensing fee for a COTS product which a vendor provides through a cloud-based solution.
2. A vendor-hosted solution, wherein SPO buys a COTS product and the vendor hosts and maintains the software on vendor equipment.

The SP2 solution will need to integrate with the Arizona Financial Information System (AFIS), and therefore whichever vendor is chosen will be required to be capable of integrating with AFIS.

3. KEY FINDINGS AND RECOMMENDATIONS

This is the first independent review of the SPO S2P project status and risks. Findings are presented in categories reflecting the current project activities. Future reports will use this section to provide updates to previously-identified findings and risks.

3.1. Project Management Activities

PCG reviewed project management activities against the project's current phase in the software development life cycle (SDLC). The Project Management (PM) task area includes standard expectations in planning, project oversight and scheduling. The PM monitoring and control activities include but are not limited to project oversight, schedule management, risk management and procurement activities. The focus of this assessment was on project management activities related to the procurement phase, Phase One. Following are the IV&V observations and findings in these areas.

Project Oversight – SPO is receiving project management assistance and expertise from the EPMO provided by the Arizona Strategic Enterprise Technology office. SPO released an RFP for an S2P solution and received vendor responses which are currently under evaluation. PCG reviewed the RFP and found it to contain a comprehensive listing of the state's needs, including specifying a set of deliverables that vendors will be expected to provide. However, PCG also identified areas for improvement as vendor evaluation and contract negotiations occur.

While there are key sections of the RFP stating the expected vendor deliverables, not all deliverables are clearly defined in the RFP. There are deliverables mentioned in the RFP text that vendors are expected to provide, but are not listed in the "deliverables" subsection for each section of the RFP. This could lead to confusion for vendors as to what they are supposed to provide, resulting in missed deliverables that will be essential for project success. Additionally, it will be hard for the project to track that all aspects of the RFP have been responded to without having a clear list of RFP deliverables. Some examples are:

- Protocol Deliverable
- Data Conversion Plan
- Issues Resolution Plan
- Test Plan
- Training Plan

Recommendation – SPO should ensure the final contract includes all deliverables that are expected of a vendor, including those mentioned above. This should also include deliverables and plans that are requested in the text of the RFP, and any other work products that the state expects of their selected vendor.

Schedule – The project has requested a schedule in the SP2 RFP of one (1) year to onboard a vendor, implement a new S2P solution and go-live into production. It is unclear at this point if enough information is known to determine if this schedule is reasonable. The RFP is still under evaluation, and therefore there is a risk that the selected vendor may try to meet this deadline but be forced to compromise in certain areas, such as not taking the time to fully understand the State's needs or reducing testing time, leading to defects in production.

Recommendation – SPO should review the project schedule and remain flexible on the overall project timeline. There are a number of areas that can be considered for adjustment, such as modifying project scope to meet the selected one-year timeline or maintaining scope but extending the project schedule. This should be carefully discussed and negotiated with the selected vendor. SPO should consider the driving factors for imposing any constraints and work with the selected vendor to set realistic expectations.

PCG also notes that the IV&V team has limited visibility into the detailed Evaluation Criteria due to SPO procedures and A.R.S. 41-2534, which contains rules for competitive sealed proposals. PCG understands

that a combination of vendor methodology, cost, and qualifications will be used to evaluate and select a vendor.

3.2. Project Technology

No notable findings during the assessment period. Future assessments will analyze the system architecture, system design and alignment with existing State personnel skills and technologies.

3.3. Requirements Management Activities

Requirements are open-ended – Many of the requirements described in the RFP are not written as explicit requirements, and instead are open-ended questions to vendors. This could lead to difficulty on the part of the evaluation team, not knowing what standard to apply to the responses, and lack of agreement and clarity on what the vendor will be providing. It may also make requirements traceability difficult, meaning the state may have difficulty ascertaining whether the vendor has met all the requirements originally requested.

Recommendation – SPO should work closely with the selected vendor to ensure that the final contract clarifies what requirements will be met and what will be delivered. This may help prevent change orders once the vendor contract is finalized.

Performance requirements are unclear – The Special Terms and Conditions section of the RFP lists detailed requirements for system service levels and incident response times. However, Attachment 3 Software Required Desired does not contain those same requirements and provides open-ended questions around service levels. The PCG team understands that this was done intentionally to allow vendors the ability to provide their own standard or reasonable performance goals. However, the state should still consider what performance requirements may be necessary and how agreement will be reached for any gap between what the state has requested in the Special Terms and Conditions and what the vendor may propose in their response.

Recommendation – SPO should discuss system performance requirements with their selected vendor prior to finalizing the contract.

3.4. Data Management Activities

Additional Data Management components for the RFP – The solution RFP covers many aspects of data management, which is an important topic and well-considered for SPO to include in the RFP. However, there are a few helpful components that should also be reflected. Some examples are including the State's anticipated data growth rate to verify vendor capacity plans are sufficient, including data conversion activities as explicit tasks on the project schedule because of the typical length and complexity of such tasks, and including a requirement for a cutover checklist for final data conversion activities.

Recommendation – SPO should discuss and decide these additional details when finalizing the contract and statement of work with the selected vendor.

3.5. Interface Management

No notable findings during the assessment period. Future assessments will analyze integration components such as planning and design discussions with interface partners, interface protocols and system architecture, and reusability of interfaces.

Appendix A: Project Artifacts

This appendix lists project artifacts provided by SPO for PCG review during the assessment period:

- Discussion with SPO Project Management team on 02/13/17
- Source2PaySchedule-170131-170213Send
- S2P Budget Allocations to 170131-170213Send
- S2PProjectManagementPlan-170131
- S2PProject Management Plan-161223send
- Discussion with SPO Project Management team on 12/19/16
- S2PRiskIssuesActionsLog-161216send
- S2PBusinessCase-161215Send
- S2PCommunicationPlanasof-161214
- Source2PaySchedule-161213SendPCG1
- Source2WBS-161213SendPCG1
- S2PAddendumProjectCharter-161212send
- Discussion with SPO Project Manager on 12/12/16
- Discussion with State Procurement Officer on 11/21/16
- AZ SPO S2P RFP and 3 amendments (Amend 1, Amend 2, and Amend 3)
- Procure to Pay Executed Project Charter 3-8-2016